WHAT IS CLAIMED IS:

1.   A method for passively managing an investment portfolio comprising a plurality of securities and for actively managing tax lots to automatically maximize investor wealth, the method comprising the following steps:

constructing an investment portfolio comprised of a plurality of securities;

periodically calculating a difference between a present value and a past value for each of at least some of the plurality of securities comprising the investment portfolio;

automatically selling the securities to harvest tax losses when the difference between the present value and the past value of the security is determined to reach or exceed a predetermined tax loss threshold;

purchasing shares of funds to temporarily replace the sold securities; and

after a minimum delay period, repurchasing the securities sold to harvest tax losses and selling the shares of funds used to temporarily replace them.

2.   A method as defined in Claim 1, wherein said constructing step comprises:

constructing the investment portfolio to substantially replicate the performance of an index.

3.   A method as defined in Claim 2, wherein the index being replicated is the Standard & Poor's 500 (S&P 500).

4.   A method as defined in Claim 2, wherein the step of constructing the portfolio further comprises:

comparing a plurality of securities comprising the index to a capitalization weighting parameter;

selecting the securities which exceed a capitalization threshold;

7   comparing a resultant portfolio to an industry

8   balance parameter; and

9   adding securities which do not exceed the

10   capitalization weighting parameter to the investment

11   portfolio to provide an industry balance which is

12   substantially equivalent to the industry balance

13   parameter.

1   5.   A method as defined in Claim 4, wherein the at

2   least some of the plurality of securities for which

3   the difference between the present value and the past

4   values is calculated comprises those securities which

5   exceed the capitalization threshold.

1   6.   A method as defined in Claim 2, additionally

2   comprising:

3   periodically rebalancing the investment portfolio

4   to substantially replicate the performance of the

5   index.

1   7.   A method as defined in Claim 6, wherein the step

2   of rebalancing comprises:

3   comparing a plurality of securities comprising

4   the index to a capitalization weighting parameter;

5   selecting the securities which exceed a

6   capitalization threshold;

7   comparing a resultant portfolio to an industry

8   balance parameter; and

9   adding securities which do not exceed the

10   capitalization weighting parameter to the investment

11   portfolio to provide an industry balance which is

12   substantially equivalent to the industry balance

13   parameter.

1   8.   A method as defined in Claim 6, wherein the time

2   period between each successive rebalancing of the

3   investment portfolio is at least equivalent to the

4   time period required by the Internal Revenue Service
5   wash sale rules.

1   9.   A method as defined in Claim 1, wherein the
2   predetermined tax loss threshold is in a range between
3   about ten and about fifteen percent.

1   10. A method as defined in Claim 1, wherein the
2   predetermined tax loss threshold is approximately
3   fifteen percent.

1   11. A method as defined in Claim 1, wherein the
2   shares of funds are in the same industry segment as
3   the securities which are being sold.

1   12. A method as defined in Claim 1, wherein the
2   shares of funds comprise exchange traded funds
3   (ETF's).

1   13. A method as defined in Claim 1, wherein the
2   minimum delay period comprises the period of time
3   required by Internal Revenue Service wash sale rules.

1   14. A method for managing a tax efficient portfolio
2   for each of a plurality of investors, the method
3   comprising the following steps:
4   constructing an investment portfolio comprising a
5   plurality of securities selected to substantially
6   replicate the performance of an index;
7   establishing an individual portfolio for each of
8   the plurality of investors wherein each investor owns
9   shares in at least some of the securities comprising
10   the investment portfolio;
11   periodically determining a change in value
12   between a present value and a past value of each of
13   the at least some securities owned by at least some of
14   the investors and comparing the change in value to a

15   predetermined tax loss threshold to identify tax
16   harvest securities;
17   selling the tax harvest securities;
18   purchasing shares of funds to temporarily replace
19   the sold securities;
20   after at least a minimum delay period required by
21   Internal Revenue Service wash sale rules, repurchasing
22   the securities sold as tax harvest securities.

1   15.   A method as defined in Claim 14, additionally
2   comprising:
3   periodically rebalancing the investment portfolio
4   to substantially replicate the performance of the
5   index.

1   16.   A method as defined in Claim 15, wherein the
2   period of time between successive rebalancing steps is
3   substantially equivalent to the period of time between
4   successive tax harvesting operations.

1   17.   A method as defined in Claim 14, additionally
2   comprising:
3   combining the tax harvest securities to be sold
4   at a given point in time from the accounts of multiple
5   investors to form a block trade of each of the tax
6   harvest securities;
7   combining the shares of each fund to be bought
8   and/or sold at a given point in time from the accounts
9   of multiple investors to form a block trade of each of
10   the funds;
11   combining the securities to be repurchased at a
12   given point in time for the accounts of multiple
13   investors to form a block trade of each of the
14   repurchased securities; and
15   executing the block trades of securities and
16   funds.

18. A method as defined in Claim 17, additionally comprising:

allocating the corresponding tax loss from the block sales of tax harvest securities to the appropriate ones of each of the plurality of investors; and

allocating the brokerage costs from the block sales of the tax harvest securities, the block purchases of the replacement securities, and the purchase or sale of the funds to the appropriate ones of each of the plurality of investors.

19. A method as defined in Claim 14, wherein the number of securities in the investment portfolio is less than the number of securities held in the index.

20. A method as defined in Claim 14, wherein securities in the index which have a capitalization weight in the index of at least a predetermined percentage are owned by each investor, and wherein securities in the index which have a capitalization weight in the index of less than the predetermined percentage are not owned by each owner but rather are commonly held with each investor having an ownership interest proportionate to the relative size of that owner's overall position.

21. A method as defined in Claim 20, wherein the predetermined percentage is approximately three tenths of one percent.

22. A method as defined in Claim 14, further comprising the step of allocating an individual position and an individual tax lot for each investor.

1   23. A method as defined in Claim 14, wherein the
2   shares of funds are in the same industry segment as
3   the tax harvest securities which are being sold.

1   24. A method as defined in Claim 14, wherein the
2   shares of funds comprise exchange traded funds
3   (ETF's).

1   25. An apparatus for automatically harvesting tax
2   losses and rebalancing an investment portfolio, the
3   apparatus comprising:
4   an accounting system for maintaining position
5   data and tax data for at least one individual
6   portfolio;
7   a tax lot harvesting system for calculating a
8   difference between a present value and a past value of
9   selected securities in the investment portfolio,
10   comparing the difference to a predetermined tax loss
11   threshold, and ordering a tax loss harvest sale of
12   such tax loss harvest securities when the difference
13   exceeds the predetermined threshold;
14   a temporary fund management system for ordering
15   the purchase of shares of funds to replace tax loss
16   harvest securities to be sold, and for ordering the
17   sale of shares of funds held for at least a
18   predetermined time;
19   a security repurchase management system for
20   repurchasing tax loss harvest securities at least the
21   predetermined time after they have been sold; and
22   a trading system for causing an external trading
23   system to execute a trade in response to the sales and
24   purchase orders from the tax lot harvesting system,
25   the temporary fund management system, and the security
26   repurchase management system.

1   26. An apparatus as defined in Claim 25, additionally
2   comprising:

3   a rebalancing system for optimizing an investment
4   portfolio to track a selected index based on a
5   capitalization weight parameter and an industry
6   balance parameter and, when rebalancing is required,
7   for producing a trade signal indicating the quantity
8   of at least one of a plurality of securities in the
9   investment portfolio to sell and at least one security
10   in the index to buy.

1   27. An apparatus as defined in Claim 25, wherein the
2   trading system transmits executed trade and tax lot
3   data to the accounting system.

1   28. An apparatus as defined in Claim 25, wherein the
2   accounting system allocates an account position for
3   each executed trade and a tax lot to each of the
4   individual portfolios.

1   29. An apparatus as defined in Claim 25, wherein the
2   difference in time between the past value and the
3   present value is at least equivalent to the time
4   period required by Internal Revenue Service wash sale
5   rules.

1   30. An apparatus as defined in Claim 25, further
2   comprising a trading data interface for receiving
3   current security price data.

1   31. An apparatus as defined in Claim 25, wherein the
2   shares of funds are in the same industry segment as
3   the securities which are being sold.

1   32. An apparatus as defined in Claim 25, wherein the
2   shares of funds comprise exchange traded funds
3   (ETF's).